

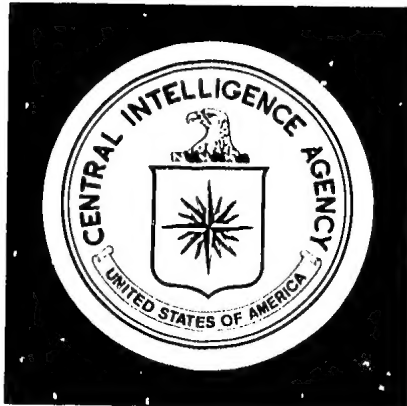
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Economic Intelligence Weekly

Secret

CIA No. 8038/74
12 June 1974

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Note: Comments and queries regarding this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY

Articles

FURTHER INCREASES IN FERTILIZER PRICES

Chemical fertilizer, already at record high prices and in short supply, will become even more expensive.

- Morocco increased the price of phosphate rock by 50% in June after tripling prices in January.
- Togo announced that its rock prices would be based on Morocco's and voided existing contracts.
- Prices of phosphate rock exported from the United States more than doubled in January and will increase by an additional 32% in July.

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Before the latest increases, spot prices of nitrogen and phosphate fertilizers were four to six times the level of June 1973. Potash prices increased by 30% to 40% in the same period.

The bill for importing countries could be three times the 1973 outlays. India, for example, may pay \$500 million for fertilizer in 1974/75, compared with an estimated \$200 million in 1973/74. Western Europe will be hard hit by the increased price of phosphate rock; its import bill in 1974/75 probably will jump to \$1.2 billion to \$1.4 billion, compared with \$300 million in 1973/74.

Fertilizer will remain in short supply over the next year or so, undercutting plans to increase crop yields. In recent years, fertilizer has accounted for about 40% of increased grain yields in the United States, 33% in Taiwan, and 60% in India.

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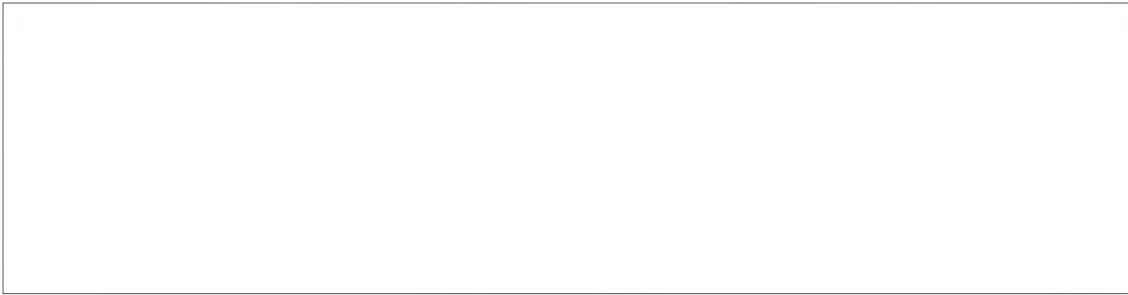
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CANADA: MEETING WITH COMMODITY EXPORTERS

In recent months, Canada has sent observers to several meetings of less developed countries planning cooperative action to raise minerals prices. Ottawa's actions underscore the statement by Minister of Energy MacDonald last March that Canada might be willing to associate with these countries to obtain high prices for their minerals

Canadian officials attended exporter meetings on:

- Iron ore in Geneva in March, when a working group was established to examine formulas for joint pricing policy.
- Copper in Vienna in April, when Chile, Zambia, Zaire, and Peru considered how world prices could be kept up.
- Mercury in Algiers in May, when six exporting countries agreed to cooperate in raising prices by 20% to 30%.

Canada accounts for 10% of world exports of iron ore, 22% of copper, and 10% of mercury. Most Canadian shipments go to the United States.

Canadian officials have played down the significance of their attendance at these meetings. They claim that Ottawa sent representatives merely to keep abreast of market developments. Trade officials emphasize that they did not sanction the price hike for mercury.



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JAPAN: REAL GNP DROPS SHARPLY

Japan's real GNP fell even more than expected in the first quarter of 1974. Tokyo announced last week that output dropped 5% from the last quarter of 1973, on a seasonally adjusted basis -- or 2% from the first quarter of 1973. The decline was the steepest in 20 years and one of the largest among industrial countries. In real terms:

- Private demand fell sharply, as inflation, tight money policies, and soaring oil import costs eroded purchasing power.
- Household income decreased for the first time in years, causing a 5.5% drop in personal consumption.
- Tight money and weak sales finally ended the investment boom.

To help maintain employment, firms allowed inventories of finished goods to rise 30% above the yearend level and reduced working hours. Total hours worked during the first quarter were down 5%, largely because of a cut in overtime. The hard-hit auto industry began operating on a three-day workweek in March.

Even after last week's announcement, Minister of Finance Fukuda reiterated his plans to stimulate demand only gradually while continuing to provide financial assistance to hard-pressed industries. He is particularly concerned about the intense inflationary pressures. In April, for example, retail prices rose at a 38% annual rate. Another inflationary spurt is likely this summer when the government lifts price controls placed on key items in March. We judge that, if stimulative action is not taken soon, real GNP will increase no more than 2% this year.

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GRAIN OUTLOOK IN COMMUNIST EUROPE

Good weather in May improved grain prospects in Eastern Europe, whereas the outlook for the Soviet crop remains indifferent. Assuming average weather throughout the remainder of the crop season, the grain harvests in both areas will be well below the record 1973 levels. This could result in substantial grain imports in FY 1975.

East European Drought Broken

Although average rainfall and below-average temperatures in May alleviated the drought in Eastern Europe, we project breadgrain output at 34-1/2 million tons, still 7% less than last year. The harvest of coarse grains also is expected to fall short of 1973's near record of 34.8 million tons.

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In the southern countries -- Bulgaria, Romania, and Hungary -- the May rains brought most of the winter grains out of the long drought in good condition. They also aided germination and early development of spring sown grains, especially corn. Flooding in Bulgaria and Hungary caused crop losses in some areas. However, because on balance soil moisture remains below normal, a hot, dry summer could reduce grain production even more.

In the northern countries -- Czechoslovakia, East Germany, and Poland -- rainfall ranged from 7% to 15% above normal and subsoil moisture at the end of May was only 10% below normal. In Poland, however, grains suffered from both winterkill and drought, and winterkill may also have been higher than average in East Germany.

Poor Weather Threatens to Reduce Yields in the USSR

Above-average winterkill and delays in spring sowing, taken together with average growing conditions in the important June-July period, indicate a Soviet grain output this year of 190 million tons or less. Although far below the planned output of 206 million tons and last year's record 222.5 million tons, a crop of this size could still exceed the pre-1973 high of 187 million tons.

The USSR normally relies on winter grains for about one-third of its grain supply. In the fall of 1973 the Soviets planted the largest area to winter grains since 1968. Temperature extremes and sparse snow cover damaged about one-fourth of these fields, leaving a smaller acreage than the average harvested in 1966-71. Moreover, yields on the remaining area may be no more than average because of spotty germination last fall, temperature variations, and spring frosts.

Spring sowing got off to an early start, but cold, snow, and rain in mid-April stalled the campaign. Unusual cold in late May killed some of the newly seeded grain in the European RSFSR and the Ukraine. More important, when the last of the late grains is planted this week, the total grain area is likely to be 5 million to 10 million hectares less than the planned 130 million. On the basis of growing conditions so far, yields on spring grains would be below the average of the past 10 years. Weather, however, has its greatest effect on spring grains in June and July.

Shortfalls Could Spur Imports

Eastern Europe's import requirements for FY 1975 are likely to be higher than the 8 million tons estimated for FY 1974 and exports lower. Romania -- usually a net exporter of grain -- entered a precautionary request for US grain before rains improved harvest prospects. Grain imports by the northern countries may also increase because of the reduced output of rye and the possibility of a poor potato crop.

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Estimated Soviet domestic requirements and export commitments are at least 6 million tons more than the projected crop. The USSR probably increased grain stocks - mostly wheat - by 15 million to 25 million tons in 1973 following its record harvest. Nevertheless, wheat imports may be necessary to correct imbalances in domestic supplies since the quality of a large share of the wheat stocks may be below milling standards and the share of breadgrains in the 1974 acreage is smaller than usual. If world prices for wheat and feed grains were right, moreover, Moscow might buy to avoid a stock drawdown and to maintain flexibility in meeting requests for grain from Eastern Europe or Third World countries such as India.

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STIR IN WORLD GOLD MARKET

Gold prices have trended downward from a peak of nearly \$180 an ounce in early April to \$157.25 an ounce in London yesterday. In the last two weeks, major oscillations have mainly reflected the market's reaction to US developments:

- 30 May - up \$6.50 when the US Senate passed a bill allowing US citizens to own gold.
- 31 May - down \$5.25 when US Treasury officials emphatically opposed private ownership.
- 5 June - up \$7.25 when Secretary Simon suggested the United States may be amenable to a rise in the official price.
- 7 June - down \$3.50 when EC finance ministers failed to propose a revaluation in the official price.

The recent downward trend in price is largely explained by the decline in commercial demand for gold, which has been only partially offset by increased speculative demand. Commercial users have gradually withdrawn from the market because of high prices and the worldwide economic slowdown. Some sources estimate commercial gold purchases are down about one-third from their 1973 peak. At the same time, new gold sales by South Africa and the Soviet Union are almost as high as last year.

Sharp fluctuations in the gold price are likely to continue as uncertainty persists about gold's future role in the international monetary system. International financial officials are holding a series of meetings this week at which the role of gold will be on the agenda. EC finance ministers started discussions last week in Luxembourg. The dialogue will continue at the annual meeting of the Bank for

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International Settlements in Basle and at the Group of Ten and Committee of Twenty meetings in Washington this week.

The participants will discuss arrangements to permit the use of gold at a higher price in financing payments deficits, without increasing its future role in the monetary system. No agreement is likely to be reached. The Europeans most likely will only reaffirm their consensus that it would be advantageous to use gold reserves in interbank settlements at a value closer to the free market price. If no action is taken, price movements will probably become somewhat more settled, while the downward trend continues.

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CHILE BOOSTING NITRATE PRODUCTION

High world prices for fertilizer have spurred Chile to expand output of natural nitrates, a substitute for petroleum-based nitrogen fertilizers. Santiago is seeking more than \$30 million of foreign credits to purchase the machinery and equipment necessary to raise output 25% to 1 million tons in 1975. It also hopes to obtain

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concessionary terms to avoid exceeding the short-term credit ceiling imposed in an IMF \$95 million standby agreement.

Chile is the world's dominant commercial supplier of natural nitrates, largely sodium nitrate found with little or no overburden in the Atacama Desert. These nitrates are particularly valuable because they contain elements useful for sugar beets and crops delayed by frost and drought. In 1973 the Netherlands and the United States purchased 40% of the 420,000 tons exported. Thus far this year, China has contracted for 70,000 tons of Chilean nitrates. Natural nitrate prices are now about double the 1973 level. Prices of petroleum-based fertilizers meanwhile have tripled, making the prices of natural nitrates -- on a nutrient content basis -- only slightly higher.

Production of natural nitrates has been declining for decades because of the expanded use of cheaper chemical fertilizers. Chilean production in 1965 totaled about 1.2 million tons but dropped to 674,000 tons in 1973 under the Allende government. Rising prices and more efficient management probably will push 1974 production up to 800,000 tons. [REDACTED]

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Notes

China Awards Air Navigation Systems Contract to UK Firm

China has awarded Britain's Plessey Navaid a \$2.2 million contract for nine Instrument Landing Systems (ILS) for key airports. Delivery begins in four months. Offers by several US firms were apparently ignored in favor of Plessey, China's longtime supplier of commercial avionics. The equipment is sorely needed to support China's expanding air service. In addition to 10 Boeing 707 aircraft, Peking thus far has received 6 Hawker Siddeley Tridents as well as a number of Soviet IL-62s. [REDACTED]

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GM to Help Poland Build Delivery Vans

General Motors has signed a Memorandum of Intent to assist Poland in the design and production of a light vehicle for use as a delivery van, minibus, and ambulance. In payment for technical assistance, machinery, and components, GM will receive finished vehicles over a 15-year period for sale on Western markets. Production is to start in 1978; capacity output of 100,000 vehicles a year by 1980 is planned. [REDACTED]

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Austria: Enrichment Contract with the USSR

Austria has become the eighth nation to conclude a deal with the USSR for uranium enrichment services. The \$56 million contract calls for 1.26 million separative work units with delivery beginning in July 1978. The enriched uranium will be used for Austria's second nuclear powerplant, an American-style light water reactor to be constructed at Enns. Austria was forced to rely on the Soviet Union for enriched uranium for the Enns plant because of inability to meet the USAEC's 30 June 1974 contract deadline for enrichment services to be provided before mid-1982. Vienna, which has not made up its mind on the size of the plant, could not furnish the details required by the USAEC. [REDACTED]

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US Finances Truck Sale to Yugoslavia

The Ex-Im Bank and a New York commercial bank will finance most of a \$3.1 million sale of quarry trucks to Yugoslavia for use in mining iron ore. The banks are extending direct credit for 90% of the purchase at 7% interest. The 19 trucks on order will be built by WABCO of Illinois. (FOR OFFICIAL USE ONLY)

Publication of Interest

Nuclear Power - The Long-Run Solution to Japan's Energy Problems
(ER IR 74-12, June 1974, [REDACTED])

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This report examines Japanese plans for the development of nuclear power through 1985. It surveys Japan's dependence on foreign technology in developing a domestic capability to provide a complete nuclear fuel cycle. It concludes that by 1985 the planned increase in the use of nuclear power will generate large savings for the economy, while affording substantial market opportunities for foreign nuclear industries.

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Percent Change		Average Annual Growth Rate Since		
	Latest Quarter	from Previous Quarter	1970	1 Year Earlier	Previous Quarter
United States	74 I	-1.6	3.9	0.2	-6.3
Japan	74 I	-5.0	6.2	-2.4	-18.6
West Germany	73 IV	-0.1	3.1	3.4	-0.3
France	73 IV	1.8	5.8	5.7	7.3
United Kingdom	73 IV	-0.4	3.1	3.9	-1.4
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 IV	2.8	6.1	7.2	11.0

WHOLESALE PRICES

Industrial

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	2.4	8.0	20.8	30.2
Japan	Apr 74	0.7	11.2	35.6	22.9
West Germany	Mar 74	1.6	0.8	13.1	30.3
France	Apr 74	2.4	12.8	34.0	45.3
United Kingdom	Apr 74	3.3	10.7	23.9	45.2
Italy	Jan 74	7.1	11.8	33.9	68.3
Canada	Mar 74	2.8	10.4	20.7	39.1

INDUSTRIAL PRODUCTION*

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Apr 74	0.4	4.6	0.7	-6.2
Japan	Apr 74	-1.7	2.7	-9.9	
West Germany	Mar 74	-1.1		1.1	-2.2
France	Mar 74	-0.1		5.0	5.4
United Kingdom	Mar 74	2.1		-4.0	-21.1
Italy	Mar 74	-2.4	3.9	11.0	-5.3
Canada	Feb 74	0.9	6.7	4.5	7.0

CONSUMER PRICES

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	5.8	10.3	12.9
Japan	Apr 74	2.7	11.4	24.9	30.8
West Germany	Apr 74	0.6	6.3	7.1	7.3
France	Apr 74	1.6	7.7	13.2	17.7
United Kingdom	Apr 74	3.4	10.3	15.2	27.0
Italy	Apr 74	1.2	9.2	16.3	26.6
Canada	Apr 74	0.7	6.0	9.9	11.4

RETAIL SALES*

Current Prices

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	May 74	1.0	10.3	6.8	13.9
Japan	Nov 73	3.4	14.6	27.4	32.0
West Germany	Feb 74	0.9	8.7	0.9	11.4
France	Feb 74	0.8	7.0	12.9	29.0
United Kingdom	Jan 74	-1.3	11.5	13.1	16.9
Italy	Oct 73	0.6	16.2	29.1	56.7
Canada	Mar 74	-1.0	11.4	11.8	23.1

MONEY SUPPLY*

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	May 74	1.6	7.0	7.0	10.0
Japan	Feb 74	1.2	17.6	15.8	8.7
West Germany	Feb 74	0.5	8.8	1.1	8.6
France	Feb 74	-0.3	11.9	9.0	14.9
United Kingdom	Apr 74	2.7	9.3	3.0	1.0
Italy	Dec 73	2.6	21.2	17.9	22.1
Canada	Apr 74	4.2	13.8	14.4	18.5

MONEY-MARKET RATES

		Percent Rate of Interest			
	Representative Rates	Latest Date	1 Year Earlier		
			3 Months Earlier	1 Month Earlier	
United States	Prime finance paper	6 Jun	9.25	7.25	9.00
Japan	Call money	3 Jun	12.50	6.63	12.00
West Germany	Interbank loans (3 Months)	31 May	9.38	14.00	10.50
France	Call money	28 May	13.00	7.63	12.75
United Kingdom	Local authority deposits	30 May	13.13	7.52	14.63
Canada	Finance paper	31 May	12.00	6.50	8.50
Euro-Dollars	Three-month deposits	31 May	11.88	8.69	8.88

*Seasonally adjusted.

**Average for latest 3 months compared with average for previous 3 months.

12 June 1974

Office of Economic Research/CIA

EXTERNAL ECONOMIC INDICATORS

EXPORTS*

f.o.b.

	Latest Month	Cumulative		
		Million US \$	1974	1973
			1974	1973
United States	Apr 74	8,230	30,824	20,908
Japan	Apr 74	4,267	15,293	10,941
West Germany	Apr 74	7,734	28,070	19,070
France	Apr 74	3,784	14,305	10,624
United Kingdom	Apr 74	3,048	10,749	8,801
Italy	Apr 74	2,502	8,827	5,708
Canada	Apr 74	2,429	10,020	7,978

EXPORT PRICES

US\$

	Latest Month	Average Annual Growth Rate Since		
		Percent Change from Previous Month	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.8	11.5	30.3
Japan	Dec 73	2.0	13.7	32.8
West Germany	Mar 74	5.9	13.9	21.9
France	Jan 74	-5.9	11.1	18.9
United Kingdom	Dec 73	0.1	8.7	17.4
Italy	Oct 73	2.1	11.6	23.7
Canada	Feb 74	4.1	12.4	34.3

IMPORTS*

f.o.b.

	Latest Month	Cumulative		
		Million US \$	1974	1973
			1974	1973
United States	Apr 74	8,138	29,843	21,545
Japan	Apr 74	4,676	16,834	8,785
West Germany	Apr 74	5,423	19,720	14,994
France	Apr 74	4,141	15,362	10,092
United Kingdom	Apr 74	3,981	14,570	9,790
Italy	Apr 74	3,368	11,580	6,406
Canada	Apr 74	2,308	9,605	7,290

EXPORT PRICES

National Currency

	Latest Month	Average Annual Growth Rate Since		
		Percent Change from Previous Month	1 Year Earlier	3 Months Earlier
United States	Apr 74	0.6	11.5	30.3
Japan	Dec 73	3.4	5.7	20.6
West Germany	Mar 74	2.3	4.1	13.0
France	Jan 74	3.2	8.0	17.6
United Kingdom	Dec 73	3.1	9.8	18.8
Italy	Oct 73	2.4	8.3	20.4
Canada	Feb 74	2.7	10.3	31.8

TRADE BALANCE*

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	Latest Month	Cumulative (Million US \$)		
		Million US \$	1974	1973
			1974	1973
United States	Apr 74	92	781	-637
Japan	Apr 74	-409	-1,342	2,156
West Germany	Apr 74	2,310	8,355	4,077
France	Apr 74	-377	-1,057	532
United Kingdom	Apr 74	-934	-3,821	-995
Italy	Apr 74	-866	-2,753	-638
Canada	Apr 74	123	415	688

IMPORT PRICES

National Currency

	Latest Month	Average Annual Growth Rate Since		
		Percent Change from Previous Month	1 Year Earlier	3 Months Earlier
United States	Apr 74	6.3	19.0	48.6
Japan	Dec 73	9.3	7.2	29.0
West Germany	Mar 74	1.6	6.2	25.7
France	Jan 74	14.9	11.3	33.0
United Kingdom	Dec 73	4.5	18.3	42.6
Italy	Oct 73	3.4	14.0	38.7
Canada	Feb 74	3.6	7.9	21.3

BASIC BALANCE**

Current and Long-Term Capital Transactions

	Latest Period	Cumulative (Million US \$)		
		Million US \$	1973	1972
			1973	1972
United States*	73 IV	214	1,209	-9,838
Japan	Apr 74	-1,005	-9,702	2,137
West Germany	Mar 74	1,176	3,950	4,566
France	73 IV	-352	-2,391	-369
United Kingdom	73 IV	-1,394	-3,164	-1,989
Italy	72 IV	800	N.A.	2,983
Canada	73 IV	27	376	1,155

EXCHANGE RATES

Spot Rate

As of 7 Jun 74

	US \$ Per Unit	Percent Change from		
		Dec 66	18 Dec 1971	19 Mar 1973
Japan (Yen)	0.0035	28.31	9.02	-8.92
West Germany (Deutsche Mark)	0.4026	60.14	29.75	13.70
France (Franc)	0.2047	1.39	3.96	-7.12
United Kingdom (Pound Sterling)	2.4035	-13.87	-7.76	-2.34
Italy (Lira)	0.0016	-2.87	-9.59	-12.15
Canada (Dollar)	1.0382	12.55	4.05	4.06

OFFICIAL RESERVES

	Latest Month	Billion US \$		
		End of	1 Year Earlier	3 Months Earlier
		Jun 1970		
United States	Apr 74	14.7	16.3	14.0
Japan	Apr 74	12.7	4.1	16.8
West Germany	Mar 74	32.9	8.8	32.3
France	Apr 74	8.1	4.4	11.5
United Kingdom	May 74	6.9	2.8	6.7
Italy	Mar 74	6.7	4.7	6.3
Canada	May 74	6.2	4.3	6.1

TRADE-WEIGHTED EXCHANGE RATES**

As of 7 Jun 74

		Percent Change from		
		Dec 66	18 Dec 1971	19 Mar 1973
United States		-17.57	-8.16	-1.52
Japan		16.72	+2.96	-8.96
West Germany		34.34	17.15	12.09
France		-22.90	-9.31	-11.75
United Kingdom		-34.09	-19.87	-5.48
Italy		-25.74	-24.35	-17.42
Canada		9.07	2.47	4.11

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

12 June 1974

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***Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.

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